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Companies with More MBAs Perform Better

Study shows that companies run by MBAs are more profitable, than those that aren't

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Viewers of the popular TV show The Office are no doubt familiar with the impact bad management can have on office productivity. Michael Scott (played by Steve Carell), the infamous manager from the U.S. show, is notoriously incompetent and can do almost nothing right. Given that the The Office has been exported to more than 50 countries, bad managers like Michael Scott are presumably a global problem.

My colleagues and I—including researchers from Harvard, the London School of Economics, McKinsey & Co., and Stanford—decided to try to scientifically measure management practices across firms and countries. A team of analysts scored managers' responses from one (extremely poor) to five (best practice) across 18 dimensions.

Not surprisingly we find well-managed firms massively outperform badly managed firms. Companies with good management are more productive, more profitable, grow faster, and are less likely to go bankrupt. While cross-country rankings grab headlines, there is even greater variation in management within each country.

Why is education so strongly linked to better management? One reason could be selection—for example, MBA students are much better at picking well-managed firms to join. But we also think an MBA toolkit emphasizes the very practices that our management measure finds are associated with performance. These include the following:

RIGOROUS MONITORING

Top firms are ruthless in monitoring their entire production process. While most U.S. firms understand and track their key performance, indicators, the very best firms continuously collect, process, and evaluate these data. They have sophisticated systems to ensure employees relentlessly seek out performance improvements to keep ahead of their competitors. MBA students are typically taught statistics and data analysis throughout their coursework, equipping them with the tools for effective monitoring.

CHALLENGING TARGETS

Best-practice firms set short-term and long-term targets for every stage of their process, spanning financial and nonfinancial measures. These targets are tough but fair, and developing them takes time and effort. MBA courses typically contain finance classes that explore the connections between operational concepts such as output and financial concepts such as gross margin, both in a short-term and long-term time horizon.

REWARDS AND INCENTIVES

Top firms acknowledge and reward their top performers with a range of bonuses, promotions, and other incentives—they understand human capital is just as critical as physical capital. Underperformers are rapidly identified and provided with training. If efforts to improve their performance are not successful, they are moved out of the firm. MBA courses usually contain sections on human resources management, instilling a sense that merit-based promotion is appropriate. MBA-trained managers know this motivates other employees to outperform.

What are the lessons for firms looking to catch up? Relentless improvement in educational standards will play a major role.

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